Credit to Commercial Banks by Banks/ Financial Institutions

340. DR. MOHAN BABU:
SHRl SOLIPETA RAMACHANDRA REDDY: Will the Minister of FINANCE be pleased to state:

(a) whether banks and financial institutions are flushed with funds which can be lent to commercial sector;

(b) whether the credit to the commercial sector has been sluggish in spite of its acute liquidity problem due to high rates of interest from these institutions;

(c) whether Govemment are aware that a distortion has been created between the commercial banks and the financial institutions with respect to these funds on account of costlier credit of the financial institutions due to higher rates of fund collections than banks; and

(d) steps Govemment have taken or propose to take to ensure that the financial institutions do not get loaded with unused funds?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): (a) Reserve Bank of India (RBI) has reported that during the financial year 1996-97 (upto January 31,1997), aggregate deposits of scheduled commercial banks showed a growth of Rs. 49,519 crore (11.4 per cent) as compared with an increase of Rs. 24,767 crores (6.4 per cent) during the corresponding period of previous year. Apart from the larger deposit accretion, banks have comfortable liquidity due to release of resources through successive reduction in the CRR by the Reserve Bank of India since November 1995 amounting to Rs. 7,525 crore during 1995-96 and Rs. 17,850 crore during 1996-97 upto January 1997. The lendable resources of banks have, therefore, increased during the current year. As regards financial institutions, RBI have reported that IDBI and IFCI are not flushed with funds and that ICICI has indicated that they have adequate funds to meet their borrowers' requirements.

(b) With regard to the interest rates in the banking system in the monetary policy announced by RBI on October 19, 1996, banks have been advised to pass on atleast part of their gains on account of CRR reductions to borrowers by reducing the Prime Lending Rate and also to announce the maximum spread over PLR. In the period subsequent to the announcement of the credit policy, banks have reduced their Prime Lending Rate and also indicated the maximum spread over Prime Lending Rate. As regards high interest rates charged by FIs, RBI has stated that they raise funds at market related rates of interest. As such, the lending rates of these institutions depends on their cost of funds. However, recently some term lending institutions, such as IDBI, ICICI, SCICI have reduced their interest rates.

(c)and(d) The sources of funds of FIs and banks are different. The sources of funds of commercial banks are mainly public deposits. Generally, funds mobilised by banks are of short to medium term in nature and most of their funds are deployed on a short to medium term basis. FIs however raise their funds by way of public and private placement of bonds, certificate of deposits and foreign currency loans on a medium to long term basis. These funds are raised by FIs at market related rates. Due to these differences, interest rates charged by FIs are different from those charged by banks.

Import Duty on Palm Oil

341. SHRI YERRA NARAYANASWAMY: Will the Minister of FINANCE be pleased to state:

(a) whether Govemment have reduced the import duties on palm oil;

(b) if so, the the reasons thereof;

(c) what were the compulsions behind the reduction of import duty on palm oil; and

(d) the present import duty structure on palm oil?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): (a) to (d) In the budget proposals for 1996-97, the basic customs duty on palm oil, edible grade in loose/bulk form (palmolein), was reduced from 30% to 20% and on RBD palm oil, RBD palm kernel oil and palm stearin from 50% to 40%. In addition to the above duty, special customs duty at the rate of 2% ad valorem is also leviable on imported oils with effect from 23.7.96. There has been no change in the above-mentioned duty rates since then. The import duty rates have been prescribed taking into account all relevant aspects and to